

Credit Products
Credit Analysis

San Bernardino County Investment Pool

Ratings

San Bernardino County
Investment Pool..... AAA/V1+

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■ Summary

The San Bernardino County Investment Pool, a local government investment pool with approximately \$2.08 billion in assets, is rated 'AAA/V1+'. Investment pools rated 'AAA' meet the highest credit quality standards for underlying assets, diversification, management, and operational capabilities. The pool's 'V1+' volatility rating reflects low market risk and a strong capacity to return stable principal values to participants, even in severely adverse interest rate environments. Portfolio valuation reports are submitted to Fitch monthly.

■ Rating Considerations

- Low exposure to market risk by virtue of conservative investment policies and practices. No use of leverage.
- High standards for credit quality and diversification.
- High degree of liquidity resulting from maturity profile and composition of pool participants. Strong ability to forecast ongoing cash requirements.
- Solid management oversight and operational controls.

■ Overview

The San Bernardino County Investment Pool is managed by the San Bernardino County treasurer and staff on behalf of the pool participants. Participants include the county, school districts, and special districts. Mandatory participants in the pool control a large majority of the pool's assets, approximately 97%. The pool's investment objectives are, in order of importance, to safeguard principal, ensure available funds to meet daily cash flow requirements, and achieve a reasonable rate of return or yield consistent with these objectives.

■ Investment Practices

Composition: The pool pursues its investment objectives by investing in a diversified portfolio of high-quality securities approved under California government code, including U.S. Treasury and agency securities, commercial paper, negotiable certificates of deposit, money market funds, and repurchase agreements with highly rated counterparties. The pool will not purchase any derivatives or structured notes.

Market Risk: On March 31, 2002, the pool's weighted average maturity (WAM) of all portfolio securities was approximately 391 days and its effective duration was approximately 0.76 years. WAM and effective duration are measures of a portfolio's sensitivity to changing interest rates and other market conditions. The pool must maintain an effective duration of less than 18 months and keep at least 40% of the portfolio in securities having maturities of 12 months or less.

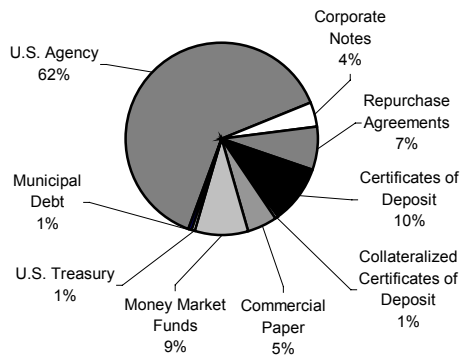
May 6, 2002

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Portfolio Composition
(As of March 31, 2002)

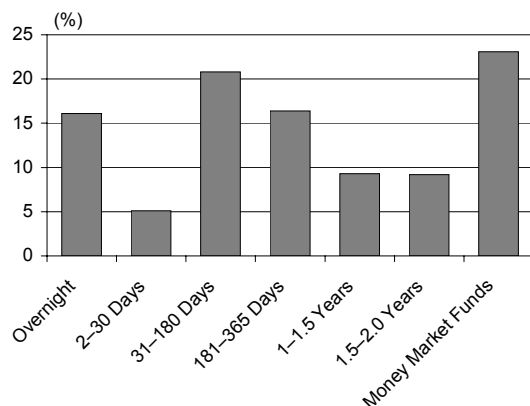


The pool's portfolio is conservatively managed and combines a sizable liquidity position of approximately 21.2% of the portfolio maturing within 30 days as of March 31, 2002, with longer dated securities maturing from 31 days to four years. The pool has terminated its use of reverse repurchase agreements and has no plans to actively engage in leveraging in the foreseeable future. In accordance with its investment policy and California government code, the pool retains the ability to enter into reverse repurchase agreements, as needed, to meet short-term cash flow requirements.

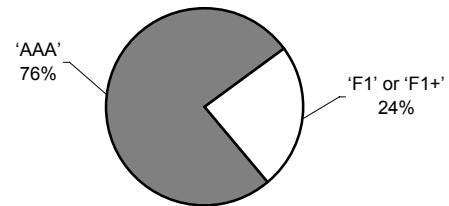
■ Liquidity

Pool cash flow needs are forecast on the basis of the prior year's cash flows, which are updated to include any identifiable changes in the forecast period. The stability of cash flow projections is bolstered by the pool's composition, since approximately 97% of the pool participants are required to maintain funds in the county pool.

Portfolio Maturity Profile
(As of March 31, 2002)



Portfolio Credit Quality
(As of March 31, 2002)



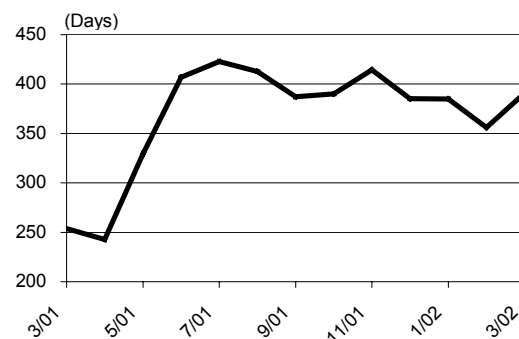
Requests by participants to withdraw funds for purposes other than normal cash flow needs approved by the San Bernardino County auditor-controller are subject to the consent of the county treasurer in accordance with California government code.

The pool conservatively manages its maturity profile to ensure a high degree of liquidity to meet cash flow requirements.

■ Credit Quality

The pool takes a conservative view toward credit risk by virtue of its investment practices, diversification standards, operational controls, and management oversight. The pool invests only in securities issued by highly rated entities and diversifies across issuers. Approximately 64% of the March 31, 2002 portfolio was invested in 'AAA' quality U.S. agency and U.S. Treasury securities. The balance of the pool was invested in diverse money market securities issued by highly rated entities. Eligible money market instruments must be rated 'F1' or 'F1+' (or the

Portfolio Weighted Average Maturity



equivalent by another nationally recognized rating agency). Repurchase agreements are entered into with highly rated counterparties.

In accordance with California government code, a treasury oversight committee, composed of representatives of pool participants and the public,

reviews the pool's investment practices and policies on a quarterly basis. Annually, the pool is subject to an external audit. Its custodian, The Bank of New York Co., Inc., holds all investments and collateral (excluding collateralized certificates of deposit) in constructive possession on behalf of the pool.

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